

Message Text

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PAGE 01 NEW DE 01900 071304Z

46

ACTION EB-11

INFO OCT-01 EUR-25 NEA-11 ISO-00 FEA-02 INT-08 AID-20

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00

XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01

AGR-20 SCI-06 AEC-11 DODE-00 PM-07 H-03 L-03 NSC-10

PA-04 PRS-01 SS-20 USIA-15 SAM-01 STR-08 CEA-02 DRC-01

/235 W

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R 071140Z FEB 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 9554

INFO AMEMBASSY KUWAIT

AMEMBASSY JIDDA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY TEHRAN

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E.O. 11652: N/A

TAGS: ENRG IN

SUBJECT: ENERGY: PETROLEUM: THE CLOUDED VIEW FROM NEW DELHI

SUMMARY INDIA'S LEADERS HAVE GRADUALLY BECOME AWARE THAT THE PRICE OF PETROLEUM IS LIKELY TO REMAIN HIGH OR EVEN INCREASE. NUMEROUS COMMITTEES ARE EXAMINING ALL KINDS OF SHORT RUN OR LONG RUN POLICY ALTERNATIVES RANGING FROM CUTS IN IMPORTS OF PETROLEUM OR OTHER

PRODUCTS, SHIFTS FROM PETROLEUM TO COAL, INTERNATIONAL BORROWINGS, A DEBT REPAYMENT MORATORIUM, ETC. IT IS STILL TOO EARLY TO SEE WHAT

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PAGE 02 NEW DE 01900 071304Z

POLICY DECISIONS WILL BE MADE BUT THE CONSORTIUM MEETING NEXT

MONTH IS LEKELY TO ASSUME ADDITIONAL IMPORTANCE. AT THE MOMENT
SENIOR CIVIL SERVANTS DEMONSTRATE A NEW WILLINGNESS TO
WORK WITH THE EMBASSY AND US FIRMS ON SPECIFIC PROJECTS,
AS THE INABILITY OR DISINCLINATION OF THE SOVIET UNION
AND ARAB COUNTRIES TO HELP HAS BEEN AMPLY DEMONSTRATED.
END SUMMARY.

1. THE PETROLEUM "CRISIS" CONTINUES TO OCCUPY THE
ATTENTION OF THE GOI, PRESS AND PUBLIC. ALMOST EVERY
ELEMENT OF THIS PROBLEM IS A SUBJECT OF CONTROVERSY.
AFTER SOME INITIAL EVEN HIGHER ESTIMATES MOST GOI OFFICIALS
ARE NOW ESTIMATING THE COSTS OF THE INCREASED PRICE,
ASSUMING NO MAJOR CUTBACK IN CONSUMPTION, AT DOLS 800
MILLION TO DOLS 1 BILLION. ATTEMPTING TO EVALUATE THIS OR
OTHER FIGURES, AND THEIR EFFECT ON THE ECONOMY, IS
EXTREMELY DIFFICULT SINCE THE PREMISES ARE USUALLY NOT
STATED, E.G., DOES ONE ASSUME HIGHER DOMESTIC PRODUCTION
OF PETROLEUM, THE SAME VOLUME OF IMPORTS OR EVEN SHARPER
CUTBACKS IN IMPORTS ACCOMPANIED BY A STILL HIGHER PRICE.

2. INITIALLY THE GOI HOPED FOR SOME SORT OF PRICE OR
FINANCING CONCESSIONS FROM THE ARAB STATES AND IRAN.
WHILE THESE DISCUSSIONS CONTICKE (SEE NEW DELHI'S 1440)
FEW BELIEVER REMAIN.

3. A VARIETY OF PLANS FOR REDUCING OIL IMPORTS HAVE
BEEN ADVANCED WITH THE HIGHEST SAID TO REACH 33 PERCENT.
MORE RECENT REPORTS INDICATE THAT A CUT OF BETWEEN 10 AND
20 PERCENT IS BEING CONSIDERED. UNLESS DOMESTIC PET-
ROLEUM PRODUCTION IS INCREASED, SUCH A CUT MUST HIT
INDUSTRIAL PRODUCTION, INCLUDING FERTILIZERS, IN A YEAR
WHEN INDUSTRIAL PRODUCTION IS ALREADY SLACK AND THE LACK
OF WINTER RAIN THREATENS POWER CUTBACKS.

4. WITH HELP FROM THE SOVIET UNION EXTREME Y LIMITED AND
WITH THE GROWING DISENCHANTMENT WITH THE ARABS AS WELL
AS EUROPEAN EFFORTS TO WORK OUT SPECIAL DEALS, A NEW
INTEREST IN JOINT OPERATIONS WITH US FIRMS IN PETROLEUM
AND OTHER FIELDS HAS BEEN SHOWN. OFFICIALS WHO WERE
PREVIOUSLY EXTREMELY COOL TO THIS EMBASSY NOW TALK OF
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PAGE 03 NEW DE 01900 071304Z

BILATERAL EXCHANGES OF INFORMATION, JOINT RESEARCH AND
COOPERATION, ETC., TO DEAL WITH THE ENERGY PROBLEM. ONE
RANKING PETROLEUM MINISTRY OFFICIAL SADLY TOLD EMBASSY
OFFICIALS THAT THE USG SHOULD HAVE INVITED INDIA TO THE
WASHINGTON CONFERENCE. "WE WOULD HAVE TOLD YOU WHAT
THOSE S.O.B.'S ARE DOING."

5. INDIAN HOPES FOR INCREASED AID HAVE BEEN HIT BY HOUSE

REJECTION OF IDA REPLENISHMENT. NOW THE TALK IS OF MASSIVE RESCHEDULING, PERHAPS EVEN A TEMPORARY MORATORIUM, OF FOREIGN DEBT REPAYMENTS. WHILE MOST INDIANS REALIZE THAT THIS IS NOT IN THE CARDS, EVEN IF THE BANK GIVES IT ITS BLESSING, THEY ARE LIKELY TO ATTACK THE WEST OF THE CONSORTIUM DOES LITTLE FOR INDIA.

6. THERE IS AMPLE TALK BUT LITTLE ACTION ON PROMOTING EXPORTS. HOWEVER, BOTTLENECKS IN THE ECONOMY, RAMPANT INFLATION, LABOR UNREST AND INEPTITUDE IN MARKETING MAKES EXPORT EARNING INCREASES (OTHER THAN PRICE RISES) HIGHLY UNLIKELY. SOME BRAVE BUREAUCRATS ARE EVEN ADVOCATING CHANGES IN POLICY, PARTICULARLY IN THE GOI'S RESTRICTIONS ON FOREIGN INVESTMENT. APPROVAL OF THE FIRST OFFSHORE OIL AGREEMENTS IS LIKELY DURING THE NEXT MONTH. ON THE POLITICAL LEVEL, HOWEVER, THERE IS LITTLE INCLINATION TO CHANGE POLICY THOUGH INDIA MAY BE READY TO CONSIDER ANY SPECIFIC PROPOSAL WHICH PROMISED SIGNIFICANT RELIEF IN ENERGY SUPPLIES OR EXPORT EARNINGS. WHILE THE FIFTH FIVE YEAR PLAN IS BEING REWRITTEN, THIS IN ITSELF WILL SOLVE NO PROBLEMS. YET THE ESSENTIAL PROBLEMS OF PRICING, RESOURCE ALLOCATION, PRODUCTION, TAXATION AND BUREAUCRATIC INEFFICIENCY REMAIN AS BEFORE.

7. WHERE DO THESE gyrations LEAVE INDIA? ESSENTIALLY UNCHANGED WITH NO EFFECTIVE POLICY AND A HOST OF DIFFICULT CHOICES. DOMESTICALLY, IT IS PROBABLY SAFE TO PREDICT THAT IMPORTS OF PETROLEUM WILL BE CUT, INDUSTRY AND POWER STATIONS ASKED TO REVERT TO COAL AND EMPHASIS LAID ON COAL MINING AND TRANSPORTATION. YET, RAPID INDUSTRIAL CHANGEOVERS ARE NOT POSSIBLE. A GAP CREATED BY OIL IMPORT CUTS CANNOT BE FILLED BY A RE-EMPHASIS ON COAL UTILIZATION WITHIN AT LEAST A THREE-YEAR TIME SPAN. EVEN THEN, LIMITED OFFICIAL USE

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PAGE 04 NEW DE 01900 071304Z

INDIA'S TRANSPORTATION SYSTEM MAY BE EXPECTED TO LEAVE MUCH TO BE DESIRED. EXTERNALLY, THE GOI WILL SEEK HELP IN ANY QUARTER AND THIS WILL REACH A CRESCENDO AT THE CONSORTIUM MEETING UNLESS THE ARABS AND IRAN MAKE PRICE CONCESSIONS.

8. THE OUTLOOK IS FOR MORE MUDDLING THROUGH AT THE COST OF AN ALREADY LABORING ECONOMY WHICH HAS RETROGRESSED IN PER CAPITA TERMS OVER THE PAST TWO YEARS. IF THE WEATHER GODS ARE FAVORABLE, THE PAIN WILL BE BEARABLE.

9. ONE OF INDIA'S LEADING ECONOMIC RESEARCHERS TOLD AN EMBASSY OFFICER THAT HIS EXAMINATION OF THE STARS INDICATED THAT 1974 WOULD BRING A GOOD RAINFALL. LIKE ALL ECONOMIC PREDICTIONS THIS IS SUBJECT TO DOUBT AND ONE

CAN ONLY HOPE THAT IT WILL BE TRUE.
SCHNEIDER

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